

Spending Reform and
Property Tax Relief

A Responsible Solution

Governor John E. Balducci

March 3, 2004

Goals of Responsible Reform

- Immediate, Targeted Property Tax Relief
- Longer-Term Property Tax Relief
- Competitiveness

Elements of Responsible Reform

- Increase the State Commitment to Education
- Limit the Local Share of Education Costs
- Strengthen the EPS model of Funding by Including Special Education & Transportation
- Provide Incentives for Efficient Delivery of Education Services

Elements of Responsible Reform

- Limit Government Spending – All Levels
- Redirect and Target Property Tax Relief
- Repeal the Personal Property Tax on Machinery and Equipment

Immediate, Targeted Property Tax Relief

- Increase General Purpose Aid to Education for FY05 by \$25 Million
- Expand The Property Tax Circuit Breaker Program & Increase Funding for FY05 by \$25 Million

Longer-Term

Property Tax Relief

- Increase the State Share of Education Costs to 55% by FY 09-10
- Limit the Local Share of All EPS Defined Education Costs to 8.0 Mills or Less by FY 09-10
- Strengthen the EPS Model of Funding by Including Special Education & Transportation
- Provide Incentives for Efficient Delivery of Education Services
- Limit Spending at All Levels of Government

Competitiveness

- Repeal Personal Property Tax on Machinery and Equipment
- Lower Overall Tax burden

Key Education Components

- Increase General Purpose Aid to Education by \$25 Million for FY05
 - Current FY05 Budgeted Amount of \$725,410,576 is increased to \$750,410,576
 - Result: An Additional \$14,986,616 for Operating and Program Cost Distribution Over Commissioner's Current RFL

Key Education Components

- Increase State Share of Education Costs to 55% by FY 09-10
 - Provide the Increased State Share each Year Over the Specified Five-Year Period Necessary to Achieve the Statutorily Required 55% by FY 2009-10
 - The Bill Does not Alter the Current Law Phase-in of EPS but Will Require Additional State Share Each Year to Meet the FY 2009-10 Required 55%

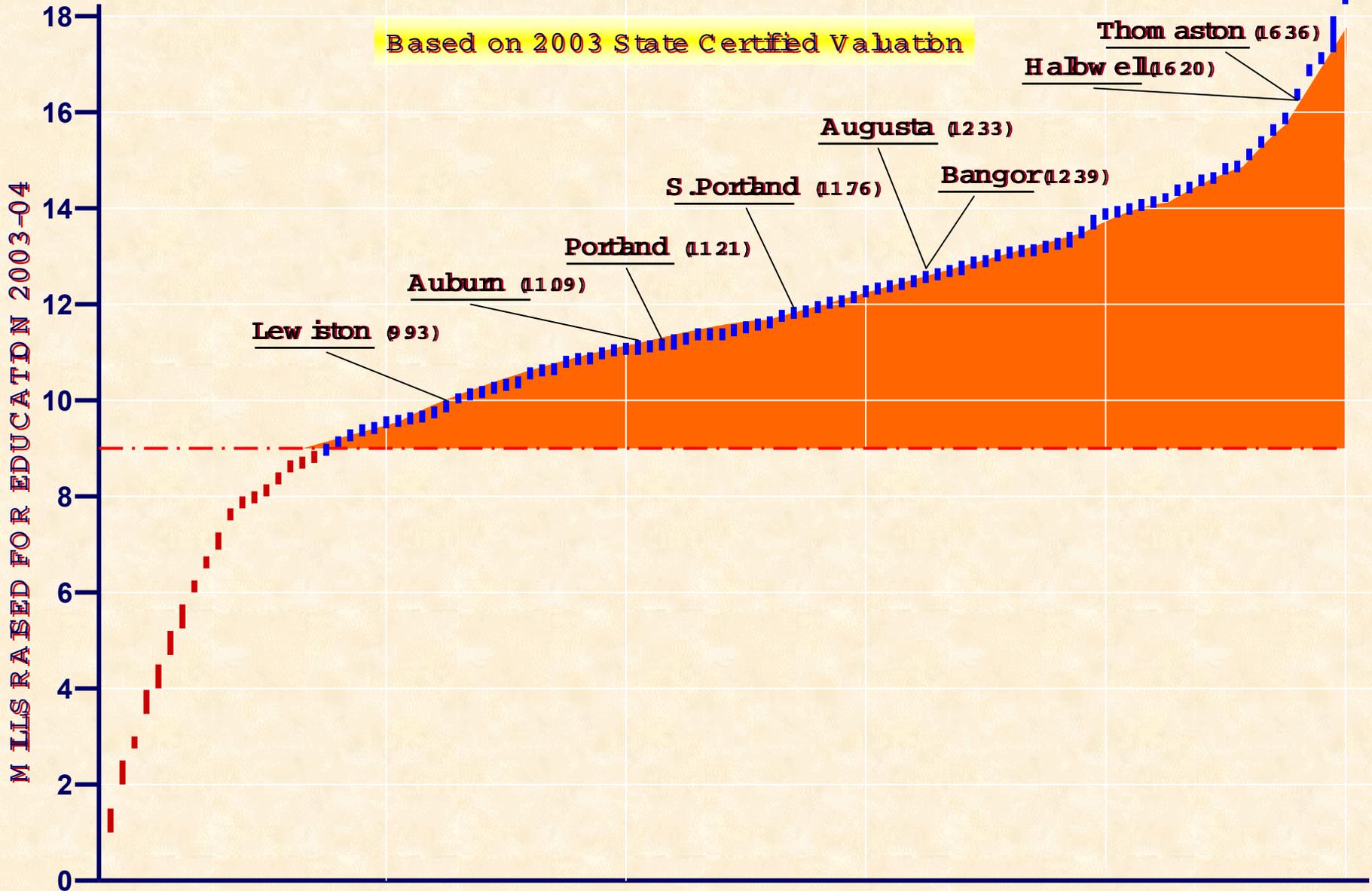
Key Education Components

- Limit the Local Share of All EPS Defined Education Costs to 8.0 Mills or Less by FY 2009-10
 - Establishes a New Method of Distribution for the State Share of Education Funding
 - Ensures That a Municipality, Single or Part of an SAU Will Not Be Required to Raise More Than 8.0 Mills of State Valuation for Their Share of Local Education Costs by FY 2009-10
 - State Share Becomes the Difference Between the Established Mill Rate Expectation and the EPS Defined Costs Each Year

Education Funding & Property Tax Relief

Municipal Mill Rate Commitment to Local Education 2003-04

Based on 2003 State Certified Valuation



Maine's Municipalities (each line represents five Units)

Key Education Components

- Strengthen the EPS Model of Funding by Including Special Education & Transportation
 - Transportation Model Enacted This Session With Refinements Before Implementation of EPS FY06
 - Special Education Program Changes Now With Fiscal Reform to Be Enacted Next Session Before Implementation of EPS in FY2005-06
 - Continue to Guide EPS Development With the Adequacy and Equity Goal for All Students

Key Education Components

- Provide Incentives for Efficient Delivery of Education Services
 - Efficient School Units
 - Regional Collaboratives
 - Regional School Districts

Efficient School Units

Existing Efficient, High Performing School Units That Agree to Mentor Others Qualify for:

- Under 1,000 Students
 - 5% GPA Bonus for 5 Years
 - State Assumes 25% of Local Construction Debt
- 1,000 to 2,500 Students
 - 7.5% GPA Bonus for 5 Years
 - State Assumes 25% of Local Construction Debt
- 2,500 + Students
 - 10% GPA Bonus for 5 Years
 - State Assumes 50% of Local Construction Debt

Regional School Cooperatives

- Five + School Administrative Units w / Combined Enrollment of 2500+ That Agree to Cooperate in the Delivery of Administrative and Other Services
 - Salary and Benefits for One FTE Regional Staff
 - Declining Scale for Five Years
 - Additional 25% Tuition Reimbursement
 - Graduate Courses
 - State Purchase of Region-Wide Software
 - State Provides Technical Assistance and Training
 - State Grant Programs Favor RCs

Regional School Districts

- Combine Two or More Contiguous School Administrative Units
- Adopt 1 Governing Body, 1 Budget
 - 1,000-2,500 Students
 - 7.5% GPA Bonus for 5 Years
 - State Assumes 25% of Local Construction Debt
 - 2,500 + Students
 - 10% GPA Bonus for 5 Years
 - State Assumes 50% of Local Construction Debt

Fund for Efficient Delivery

<u>Fiscal Year</u>	<u>Amount of Funds</u>
• 2004-05	1/2% of GPA
• 2005-06	1% of GPA
• 2006-07	2% of GPA
• 2007-08	2% of GPA
• 2008-09	2% of GPA
• 2009-10	2% of GPA

Circuit Breaker Program

● Expand Property Tax Circuit Breaker Program

- Additional \$25 Million for FY 2005
- Increase Maximum Refund from \$1,000 to \$2,000
- Increase Income Eligibility from \$30,300 (s) / \$46,900 (j) to \$75,000 (s) / \$100,000 (j)
- Increase Household Eligibility

Limit Government Spending

- Limit Spending for Municipal and County Budgets
 - Modeled on Current State Cap
 - Cap is 4.67% for FY 2006-07 and 5.17% for FY 2007-08

Competitiveness

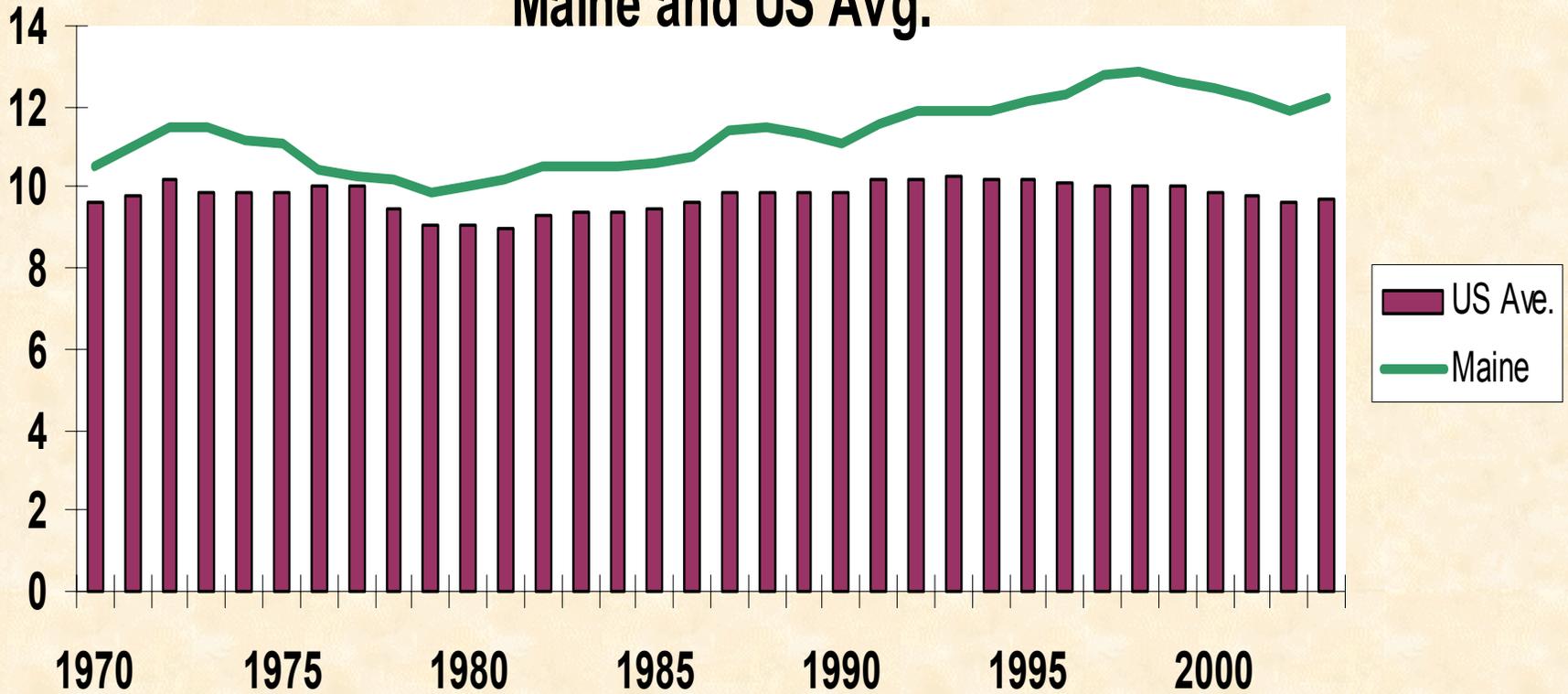
- Repeal Personal Property Tax on Machinery and Equipment
 - Repeal Effective April 1, 2004
 - BETR qualified Equipment becomes Tax Exempt as it Exits The BETR Program
 - Towns reimbursed 50%
 - State Savings of \$3.7 Million in FY 2007 and \$11.0 Million in FY 2008

Why Focus on Tax Relief?

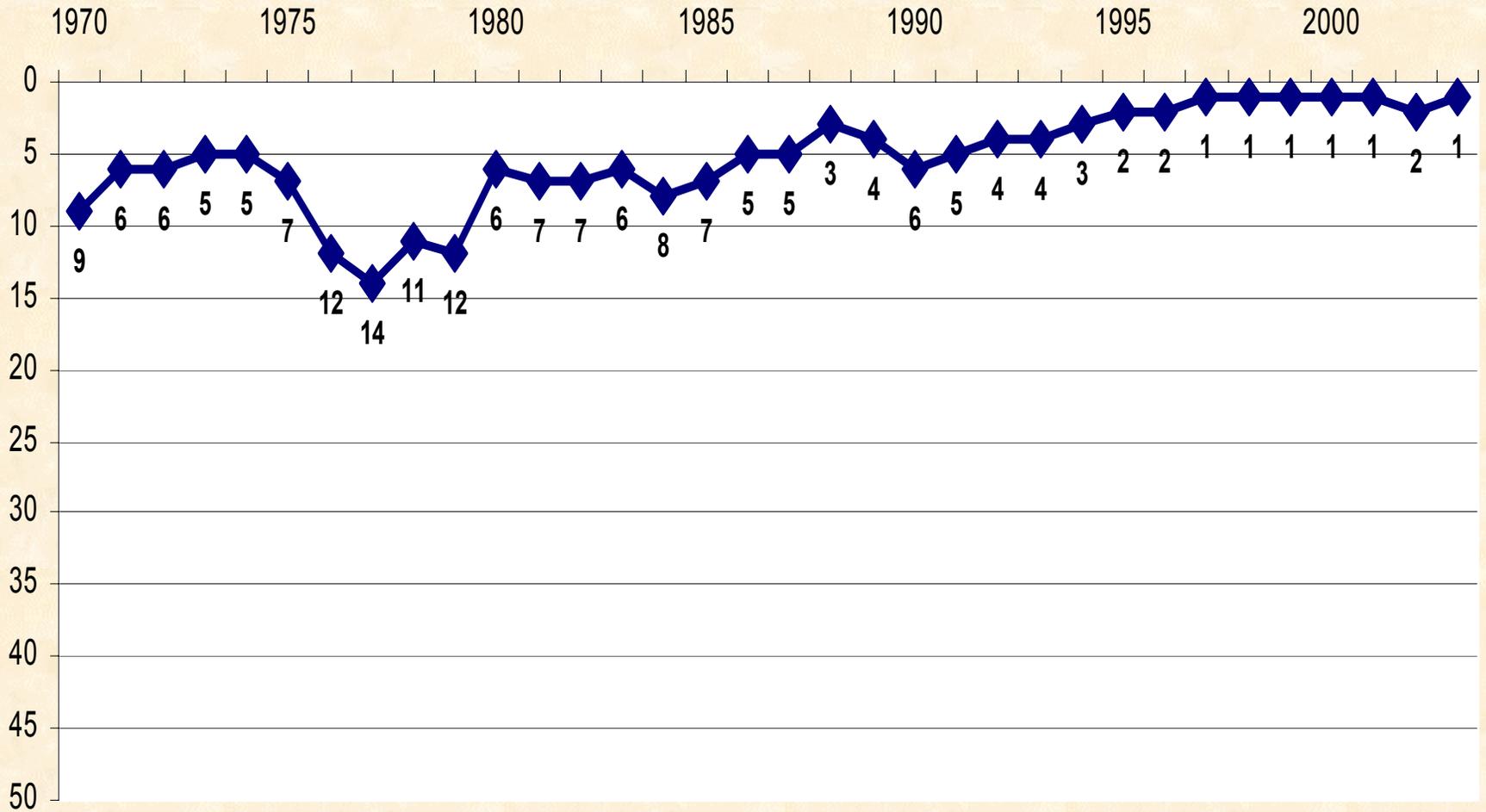
- Tax Burden 20% Above US and Among the Highest in the US for a Decade
- Property Tax Burden Among the Highest in the Nation
- Two Citizens' Initiatives Demanding Property Tax Relief
- Maine's High Tax Burden Weakens Our Competitive Position

State & Local Taxes as % of Personal Income

Maine and US Avg.



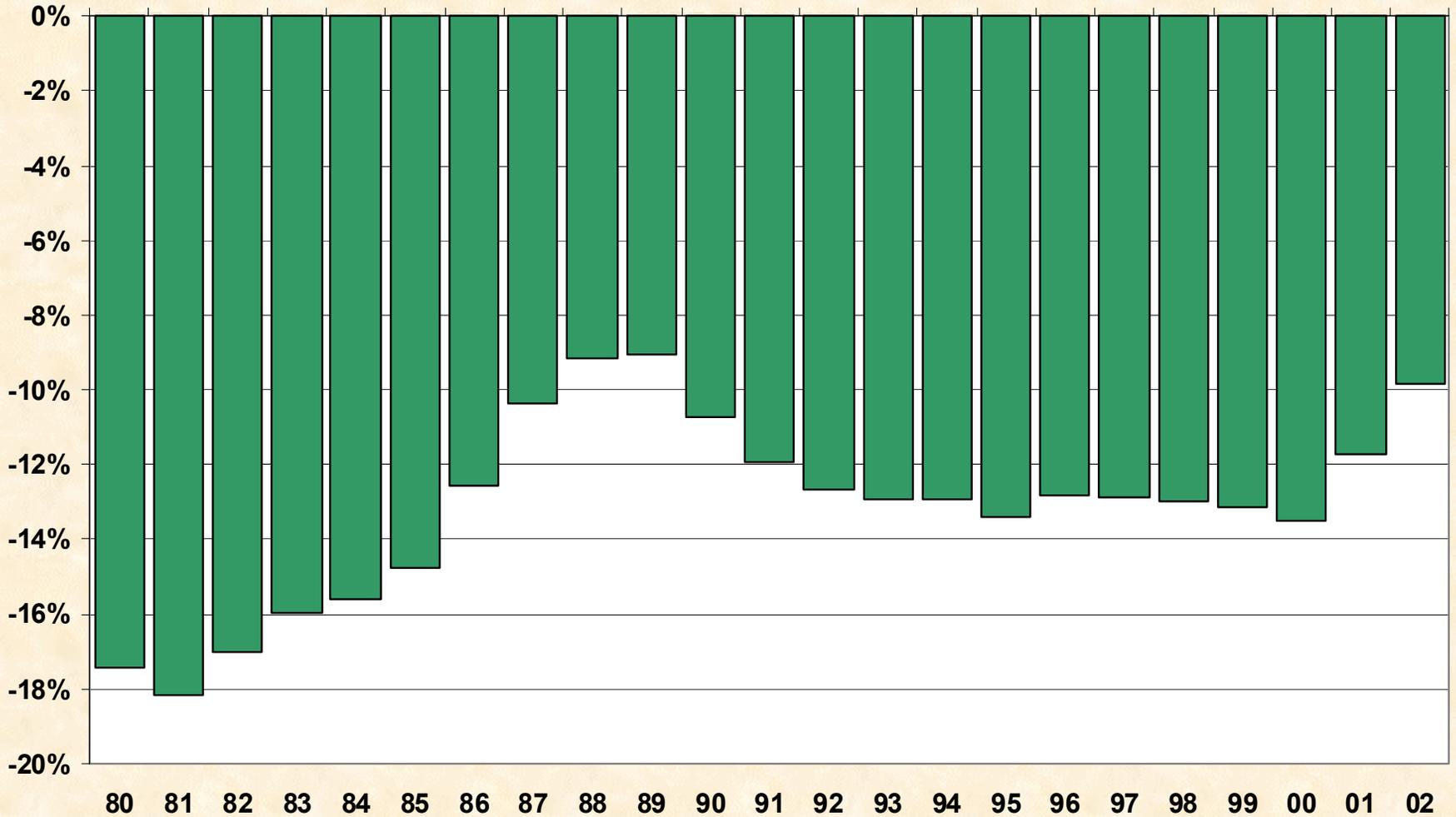
Maine Rank in S&L Taxes as % of Personal Income



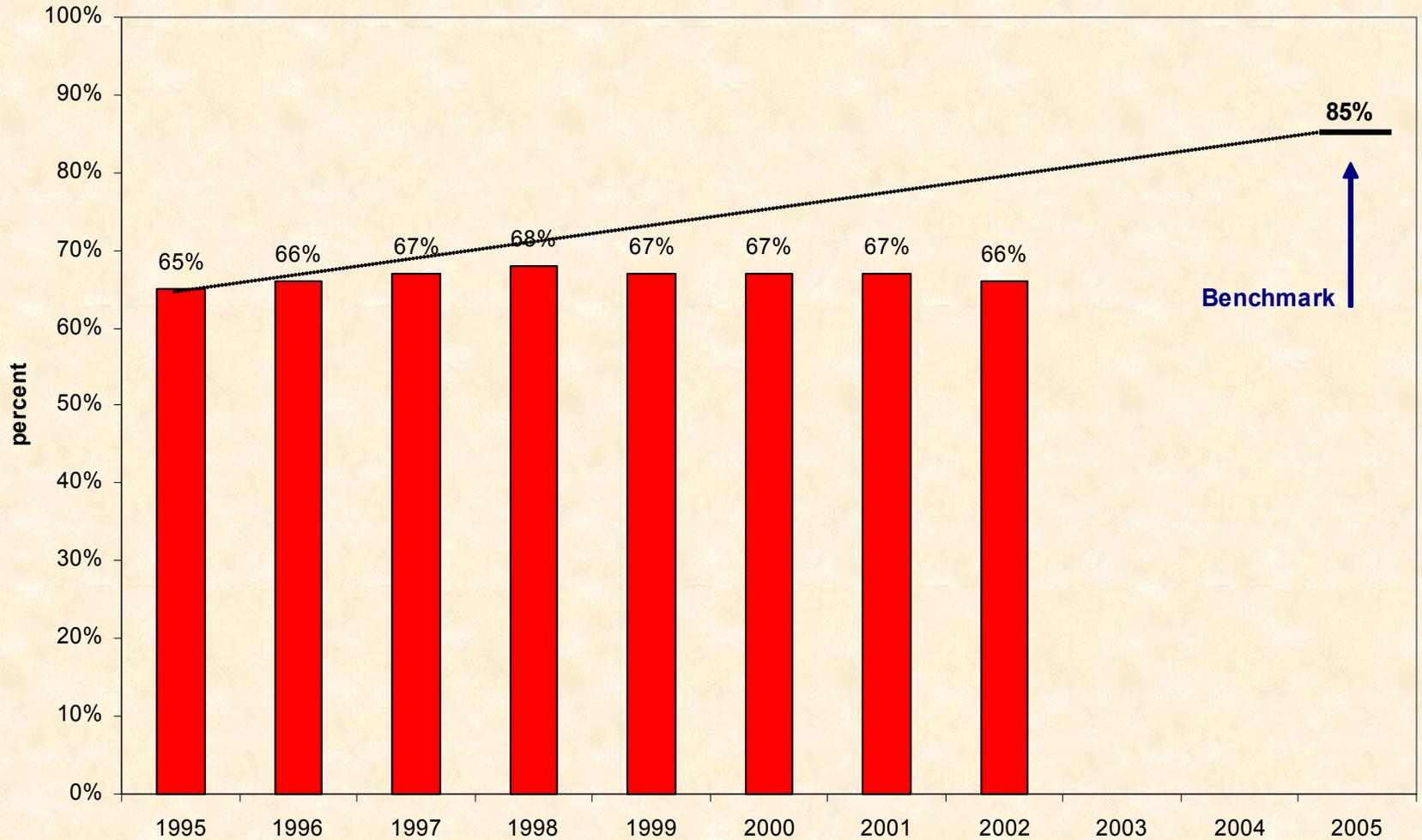
Why Focus on Competitiveness ?

- Per Capita Income 10% Below US
- 1/3 of Jobs Do Not Pay Livable Wage
- Industrial Productivity 70% of US
- Lost 1/3 Manufacturing Jobs Since 1989
- Cost of Doing Business 10% Above US
- Our Manufacturing Job Loss Much Worse Than US

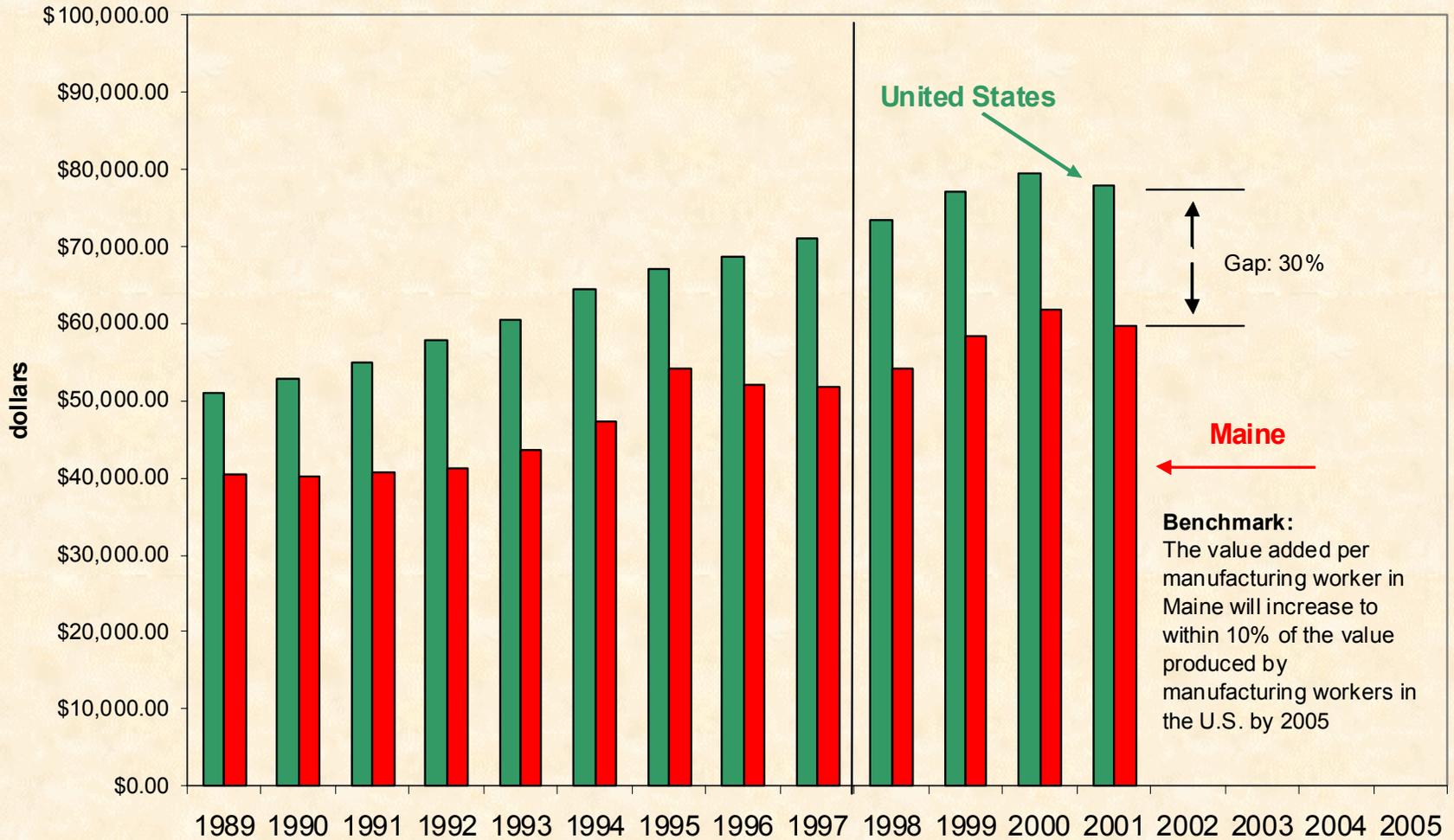
Per Capita Personal Income Gap (Pct. Points Me. PCPI Lags Natl. Avg.)



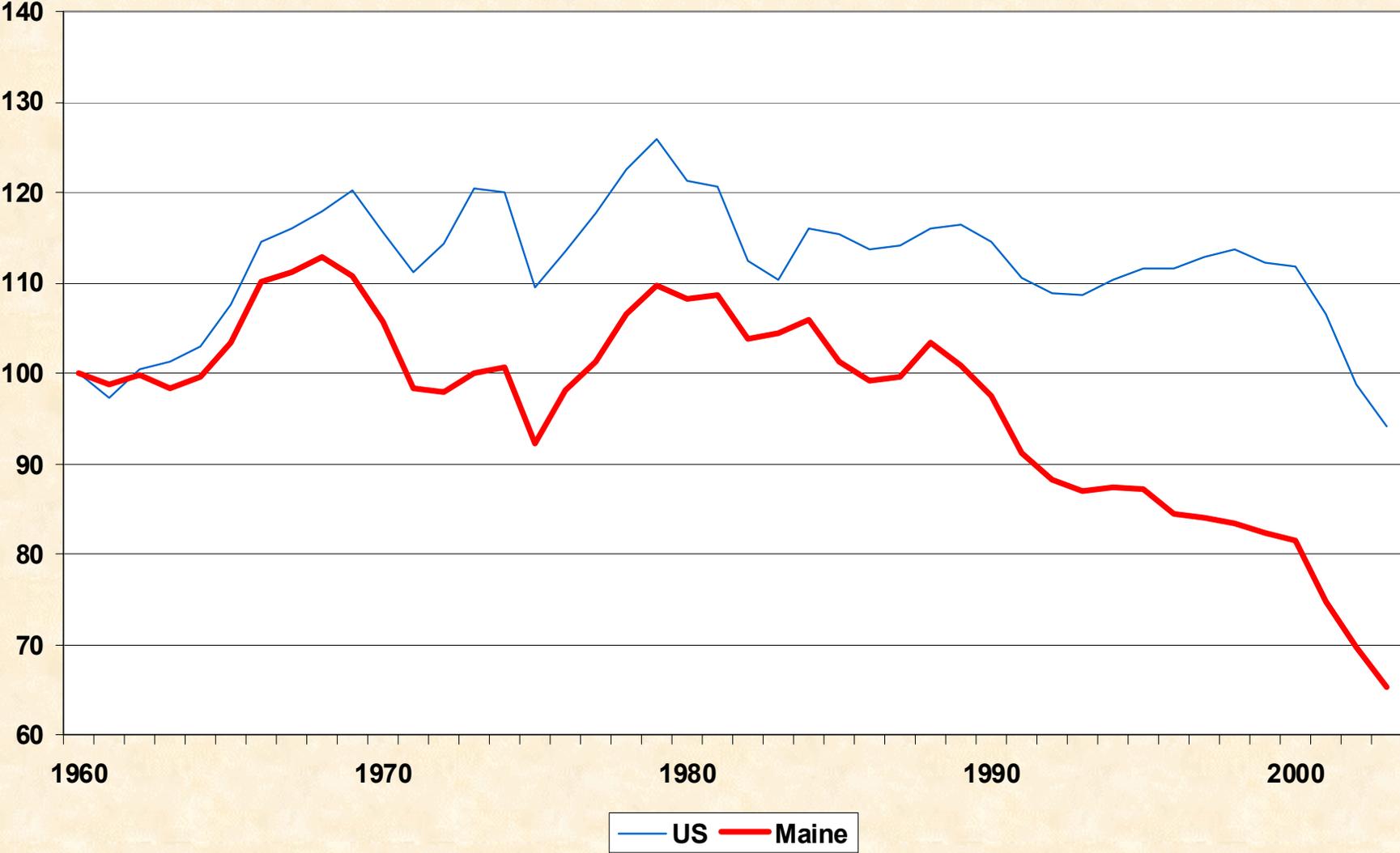
Percent of Maine Jobs that Pay a Livable Wage, 1995-2002



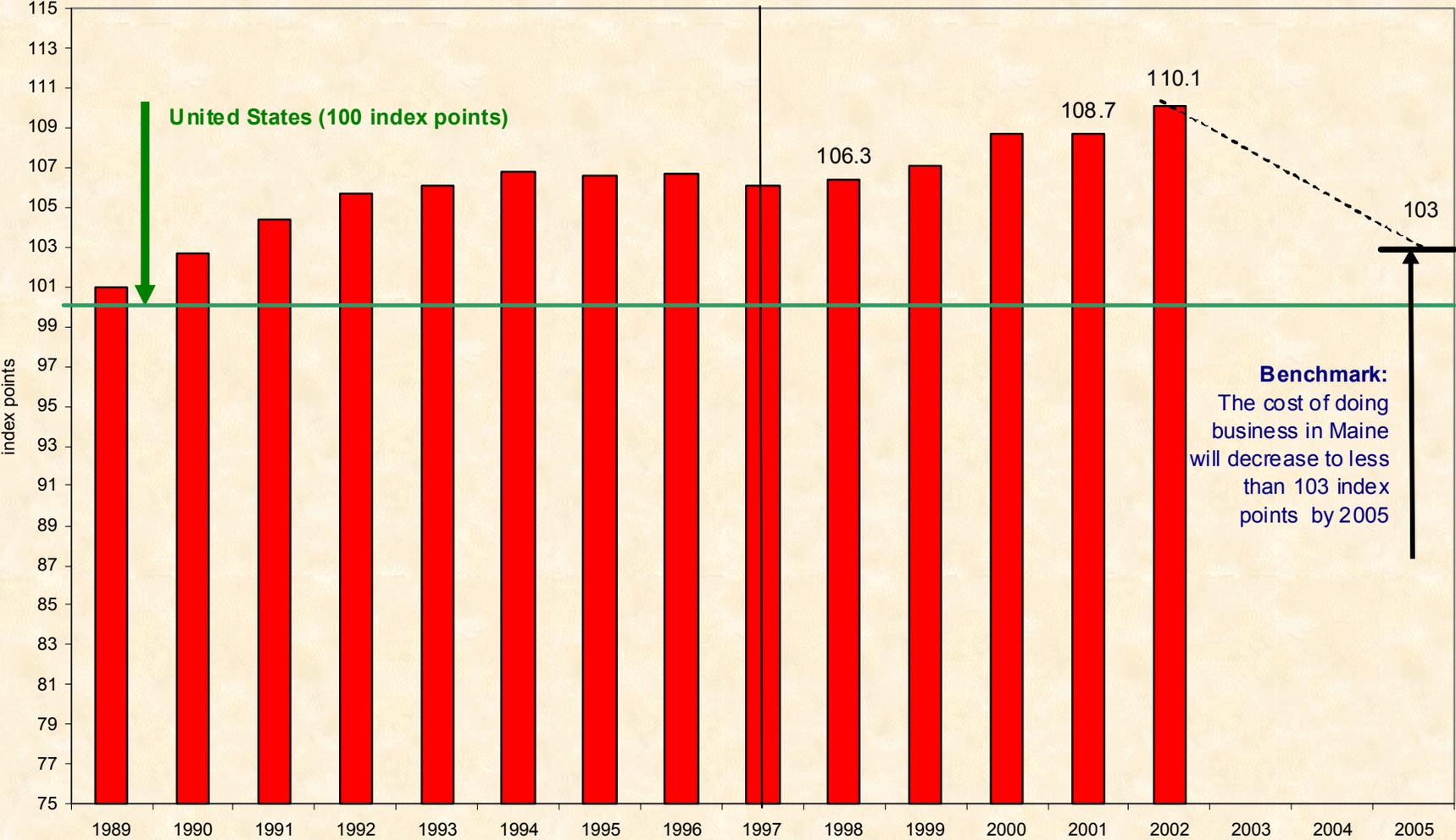
Manufacturing Value Added per Manufacturing Worker, Maine and U.S., 1989-2001



Index of Maine & US Manufacturing Employment (1960=100)



Cost of Doing Business, Maine, 1989-2002

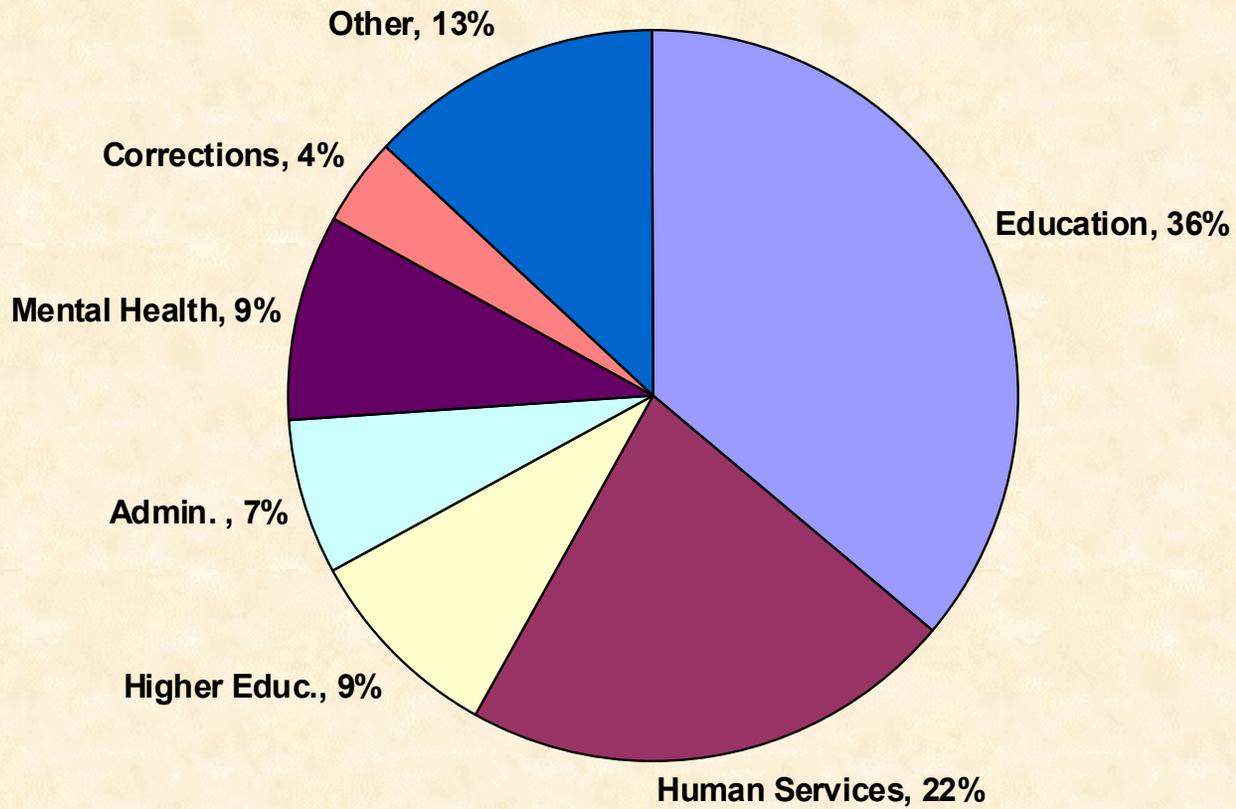


Benchmark:
The cost of doing business in Maine will decrease to less than 103 index points by 2005

Why Focus on Education Spending?

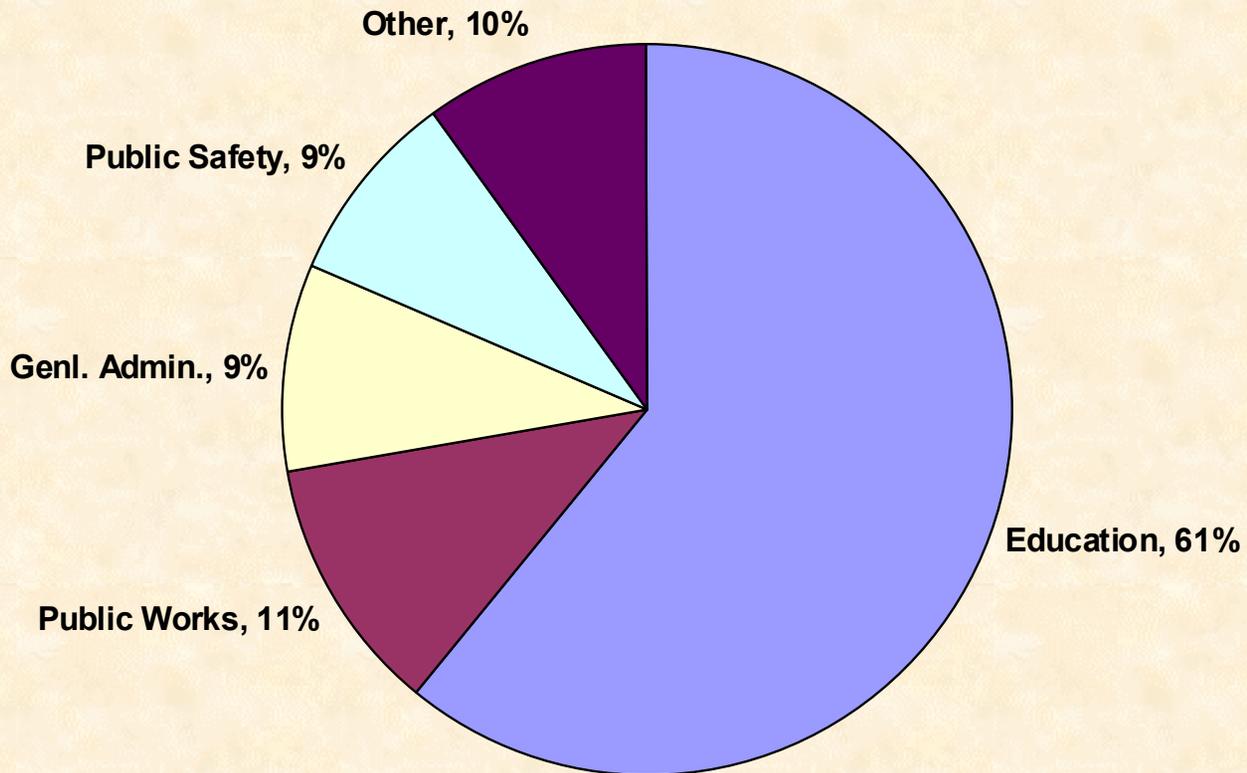
- Largest Part of State and Local Budgets
- Expenditures Increasing Rapidly
- Enrollments Are Declining Rapidly

Maine State Expenditures (2002 General Fund)



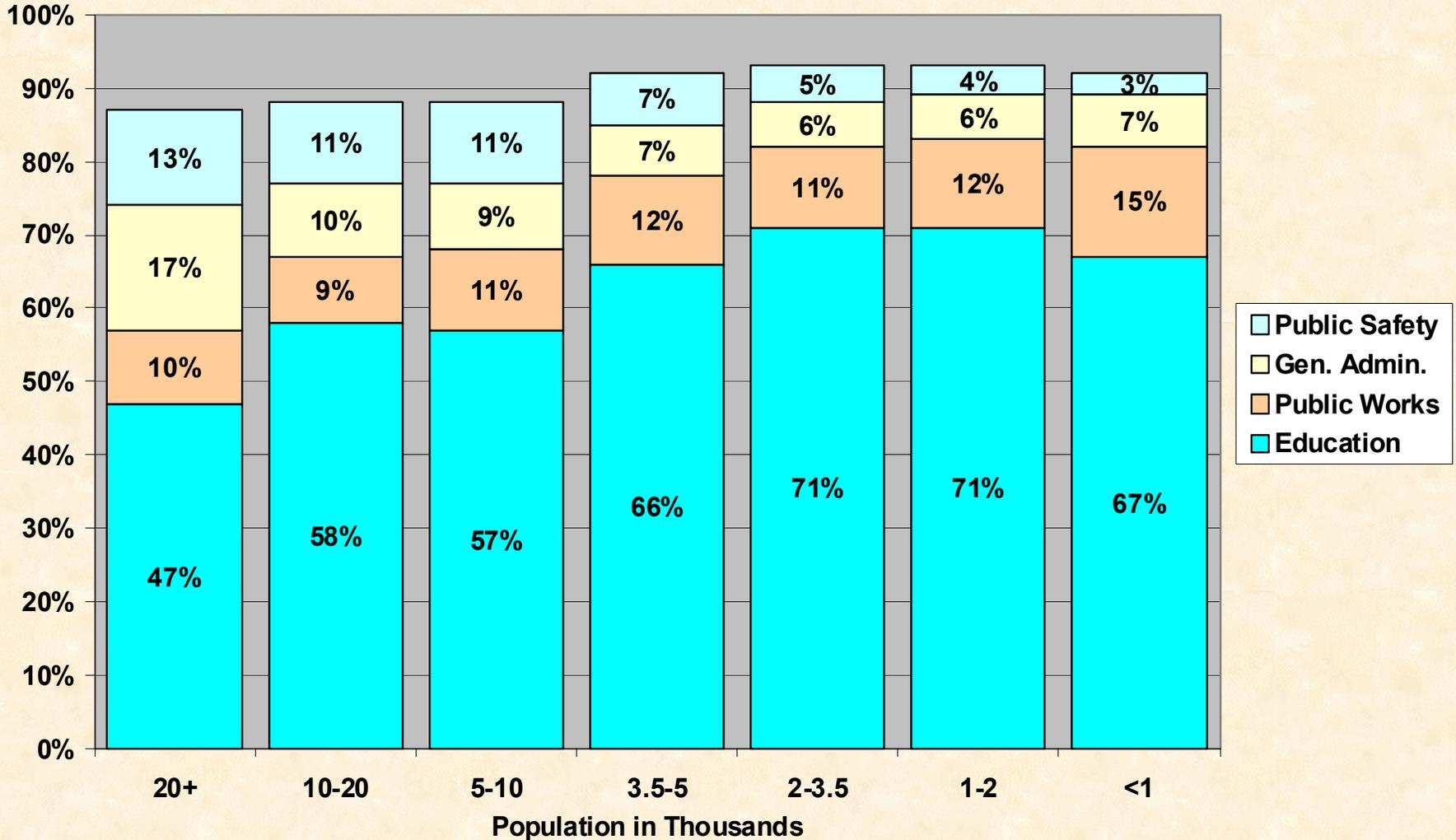
Source data: Me. Bur. Of the Budget

Maine Municipal Expenditures (2002 Survey Estimates)



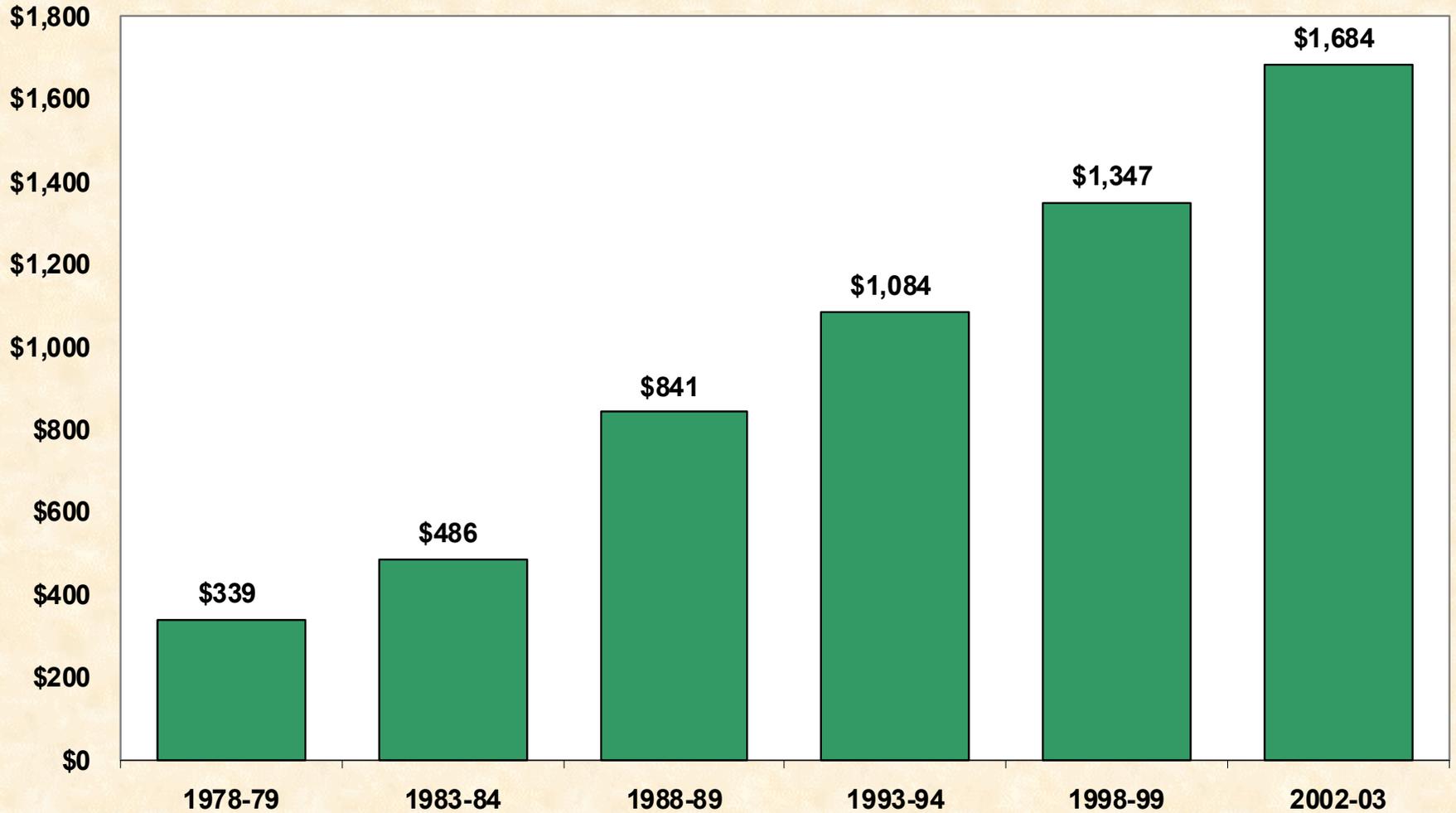
Source data: Me. Municipal Association

Maine Municipal Expenditures by Population Size (2002 Survey Estimates)

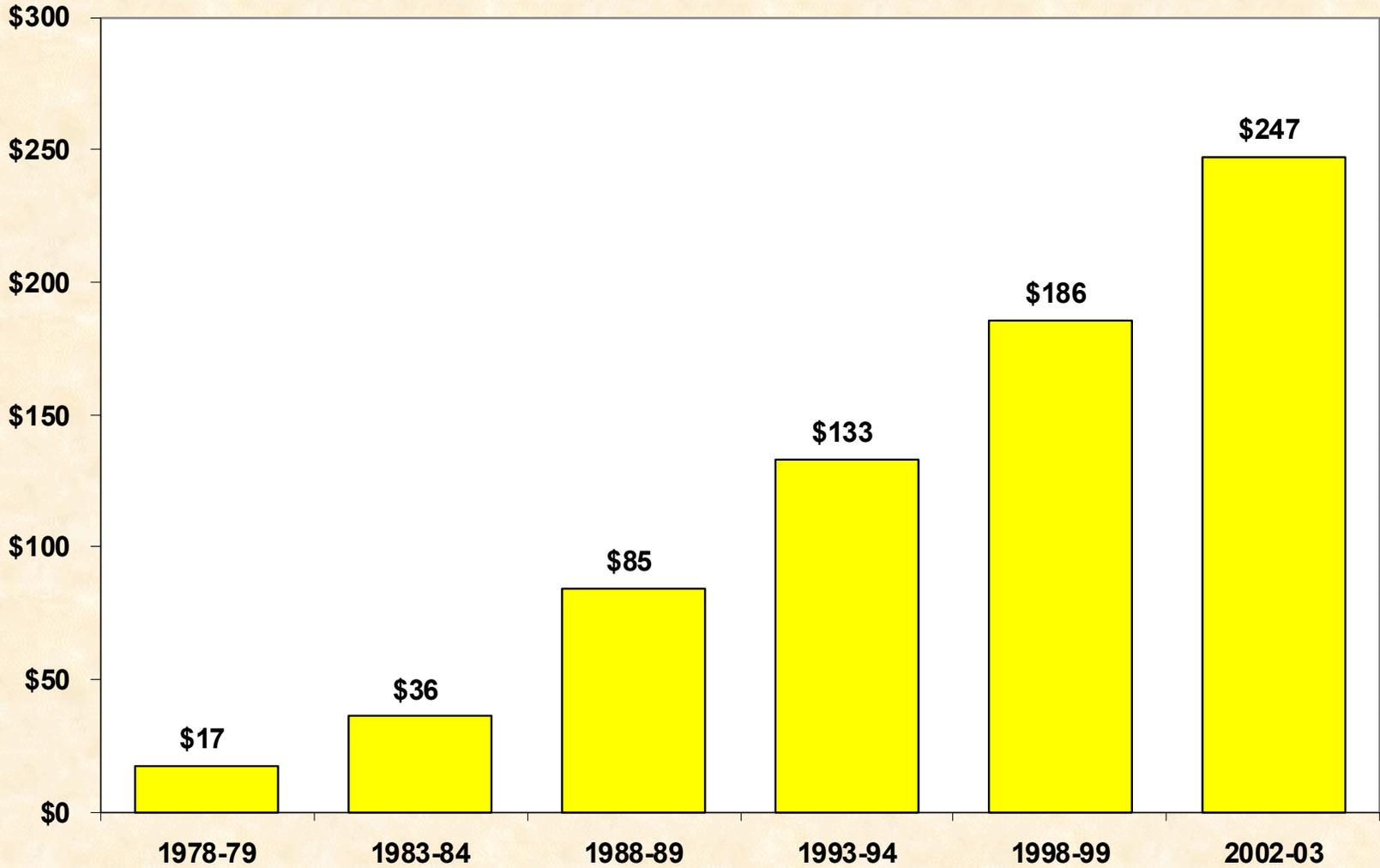


Source data: Me. Municipal Association

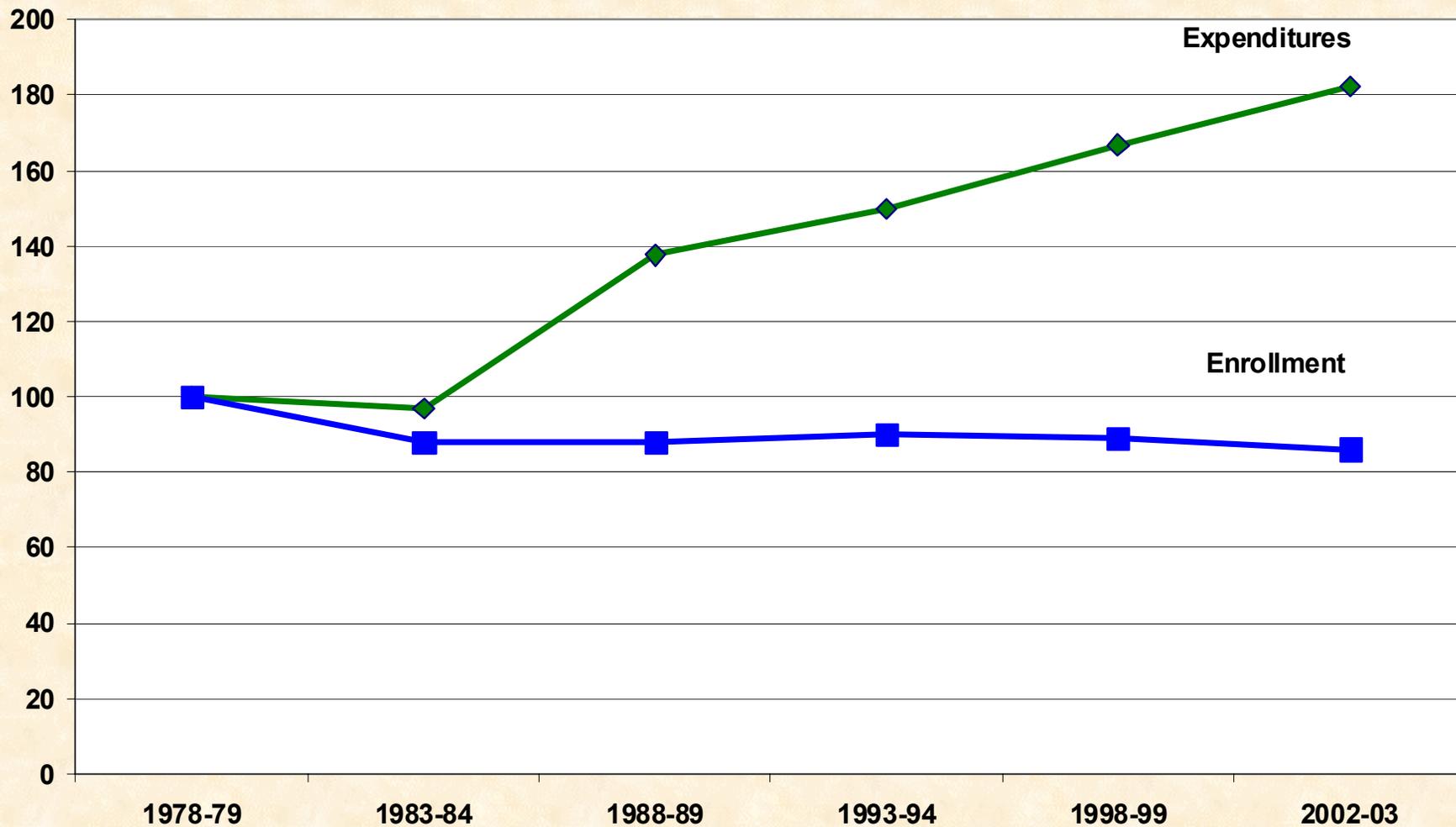
Statewide K-12 Education Expenditures (in millions of \$)



Statewide Special Education Expenditures
(in millions of \$)



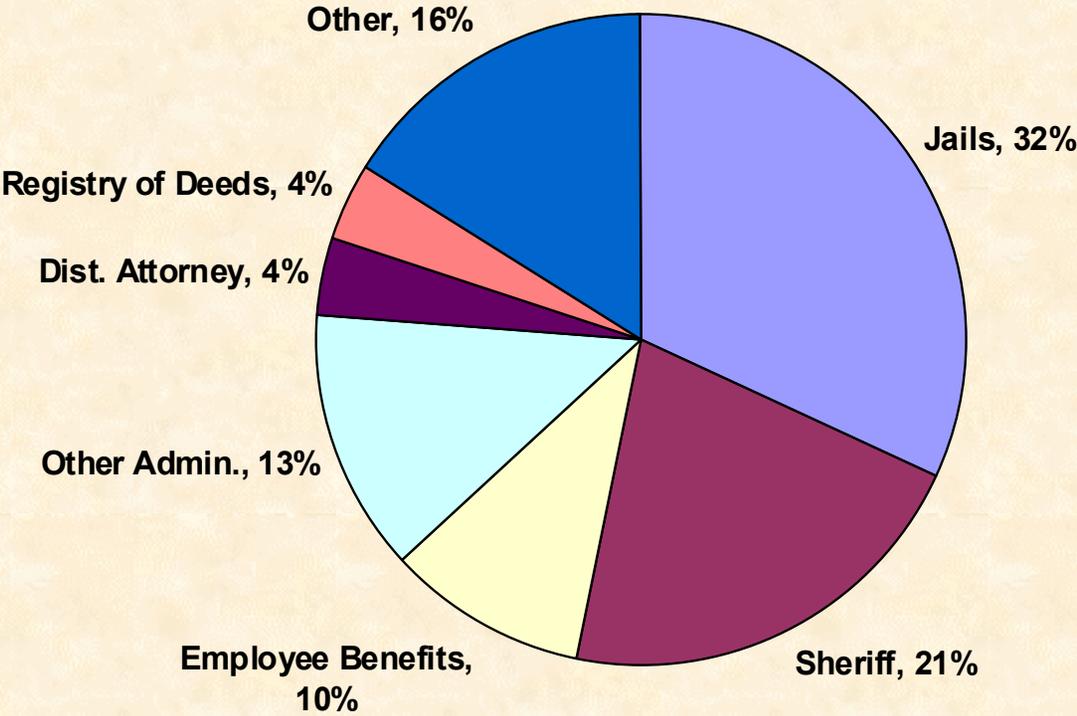
Real K-12 Expenditures vs K-12 Enrollment Indexed to 1978-79 =100



3 Ways to Reduce Burden

- Eliminate or Cut Programs
- Find Efficiencies
 - Consolidation / Regionalization
- Increase Income

Maine County Expenditures (2001 Survey Estimates)



Source data: Me. Municipal Association